

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HARRISON COUNTY)
WATER ASSOCIATION FOR APPROVAL OF) CASE NO. 9971
CONSTRUCTION AND FINANCING)

O R D E R

Harrison County Water Association ("Harrison Water") by application filed July 9, 1987, is seeking authorization to construct a \$661,000 waterworks improvement project and approval of its plan of financing for this project. The project funding includes a \$419,000 loan from the Farmers Home Administration ("FmHA"), \$200,000 in Harrison Water funds and \$42,000 from applicants for service in the proposed project area. Harrison Water will enter into a security agreement with FmHA for the loan. The loan will be repaid over a 40-year period at an interest rate of 6 7/8 percent per annum.

The proposed construction will provide service to approximately 124 additional customers. Drawings and specifications for the proposed improvements prepared by Parrott, Ely and Hurt, Consulting Engineers, of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

The evidence indicates that reliable and adequate service can be maintained throughout the expanded system after completion of

the proposed construction. However, there are several areas which could have pressure above 150 psig in violation of 807 KAR 5:066, Section 6(1).

The Commission reminds Harrison Water of its obligation to provide adequate and reliable service to all of its customers. Harrison Water should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), Harrison Water must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FIRE HYDRANT INSTALLATION

Harrison Water is proposing to install four and relocate three conventional fire hydrants as part of this construction project. This fire hydrant installation is not in compliance with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10:020 and the "Recommended Standards For Water Works" by the Great Lakes-Upper Mississippi River Board of State Sanitary Engineers as adopted by 401 KAR 6:200.

Harrison Water was requested by the Commission to document that the proposed new and relocated conventional fire hydrants were capable of providing fire protection. The Engineer responded that the hydrants, would be utilized as blowoff devices. The hydrants proposed are two-nozzle fire hydrants as opposed to the standard three-nozzle fire hydrant. Merely deleting the pumper

nozzle and calling the proposed fire hydrants blowoff hydrants does not adequately address the issue of fire protection availability.

The Commission in good conscience cannot approve the installation of a conventional fire hydrant that cannot provide fire protection in compliance with both state regulations and accepted engineering criteria. There are other pieces of water system equipment which can be used for the intended operation and maintenance procedures instead of fire hydrants. The installation of conventional fire hydrants may mislead the customers of Harrison Water into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. Under these circumstances the proposed new and relocated conventional fire hydrants should not be installed.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. With the appropriate monitoring of service system-wide, and the deletion of the proposed new and relocated conventional fire hydrants, public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of approximately 18.7 miles of 6- and 4-inch diameter pipelines, and related appurtenances. The low bids totaled \$452,459 which will require about \$661,000 after allowances are made for fees, contingencies,

other indirect costs and additional construction being considered as a result of receiving bids under the final estimate.

3. Harrison Water should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 6(1), Harrison Water should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

5. Harrison Water should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

6. Harrison Water should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

7. Harrison Water's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that

the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

8. Harrison Water should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

9. The financing plan proposed by Harrison Water is for the lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service and should, therefore, be approved.

10. The financing secured by Harrison Water for this project will be needed to pay for the work herein approved. Harrison Water's financing plan should, therefore, be approved.

11. If under FmHA loan conditions Harrison Water is notified and granted an option to accept a lower interest rate on the date of closing, Harrison Water should file the following with the Commission within 30 days of the date of closing: (1) the FmHA notification of the lower interest rate and all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) amended pages to its bond resolution and an amended amortization schedule based on the different interest rate if a different rate is accepted; and, (4) full documentation of why the lower rate was not accepted showing

an analysis of the higher costs associated with the loan over the loan's repayment period in the event the option to accept the lower rate is not taken by Harrison Water.

IT IS THEREFORE ORDERED that:

1. Harrison Water be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein on the condition that service levels be monitored, corrective action taken in accordance with Finding Number 1 and Finding Number 3 of this Order, and that the proposed new and relocated conventional fire hydrant be deleted.

2. Harrison Water's financing plan consisting of an FmHA loan of \$419,000, \$200,000 in Harrison Water funds and \$42,000 in contributions from applicants for service be and it hereby is approved.

3. Harrison Water shall comply with all matters set out in Findings 3 through 8 and Finding 11 as if the same were individually so ordered.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 11th day of February, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Hermann
Chairman

Robert M. Davis
Vice Chairman

Steven N. Wellman
Commissioner

ATTEST:

Forest M. Skaggs
Executive Director